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THE IMPACT OF BART ON LOCAL GOVERNMENT EXPENDITURES, REVENUES AND FINANCIAL POLICIES

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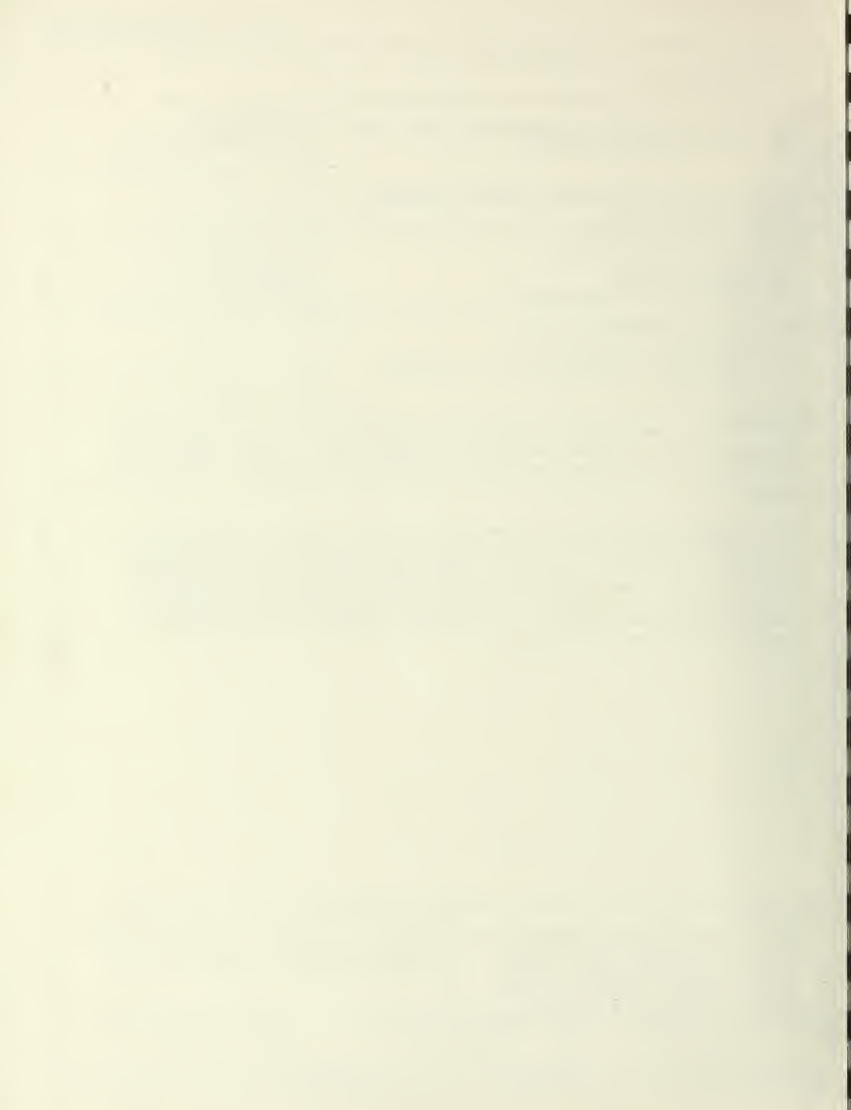
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16. Abstract This Working Paper presents an assessment of BART's impact on local government expenditures, revenues and financial policies in the Bay Area. The paper includes a comparison of financial trends in Bay Area cities with California cities in general and findings and conclusions on BART's impact on local tax rate decisions, local expenditures and revenues and the financing of local capital improvement projects. A preliminary discussion of local financial policy implications is included.			
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- BART:** The Bay Area Rapid Transit System
- Length:** The 71-mile system includes 20 miles of subway, 24 miles on elevated structures and 27 miles at ground level. The subway sections are in San Francisco, Berkeley, downtown Oakland, the Berkeley Hills Tunnel and the Transbay Tube.
- Stations:** The 34 stations include 13 elevated, 14 subway and 7 at ground level. They are spaced at an average distance of 2.1 miles: stations in the downtowns are less than one-half mile apart, while those in suburban areas are two to four miles apart. Parking lots at 23 stations have a total of 20,200 spaces. There is a fee (25 cents) at only one of the parking lots. BART and local agencies provide bus service to all stations.
- Trains:** Trains are from 3 to 10 cars long. Each car is 70 feet long and has 72 seats. Top speed in normal operations is 70 mph with an average speed of 38 mph including station stops. All trains stop at all stations on the route.
- Automation:** Trains are automatically controlled by the central computer at BART headquarters. A train operator on board each train can override automatic controls in an emergency.
- Magnetically encoded tickets with values up to \$20 are issued by vending machines. Automated fare gates at each station compute the appropriate fare and deduct it from the ticket value.
- Fares:** Fares range from 25 cents to \$1.45, depending upon trip length. Discount fares are available to the physically handicapped, children 12 and under, and persons 65 and over.
- Service:** BART serves the counties of Alameda, Contra Costa and San Francisco, which have a combined population of 2.4 million. The system was opened in five stages, from September 1972 to September 1974. The last section to open was the Transbay Tube linking Oakland and the East Bay with San Francisco and the West Bay.
- Routes are identified by the terminal stations: Daly City in the West Bay, Richmond, Concord and Fremont in the East Bay. Trains operate from 6:00 a.m. to midnight on weekdays, every 12 minutes during the daytime on three routes: Concord-Daly City, Fremont-Daly City, Richmond-Fremont. This results in 6-minute train frequencies in San Francisco, downtown Oakland and the Fremont line where routes converge. In the evening, trains are dispatched every 20 minutes on only the Richmond-Fremont and Concord-Daly City routes. Service is provided on Saturdays from 9 a.m. to midnight at 15-minute intervals. Future service will include a Richmond-Daly City route and Sunday service.* Trains will operate every six minutes on all routes during the peak periods of travel.
- Patronage:** Approximately 146,000 one-way trips are made each day. Approximately 200,000 daily one-way trips are anticipated under full service conditions.
- Cost:** BART construction and equipment cost \$1.6 billion, financed primarily from local funds: \$942 million from bonds being repaid by the property and sales taxes in three counties, \$176 million from toll revenues of transbay bridges, \$315 million from federal grants and \$186 million from interest earnings and other sources.

March 1978

*Sunday service began in July, 1978

SUMMARY AND FINDINGS

The purpose of the Local Government Finance Task was to determine the impacts of BART construction, debt burden and operations on the budgets and financial policies of local governments in the three BART counties--Alameda, Contra Costa, and the City and County of San Francisco. The Local Government Finance Task is one of five tasks in the Public Policy Project of the BART Impact Program (BIP) that look at the overall impacts of BART on local government policies in the areas of land use, organization, transit and highway planning. Specifically the Local Government Finance Task has focused on the impacts of BART on:

- . The willingness of local officials to raise, lower or maintain the existing local tax rate.
- . Local capital and operating expenditures, stemming from the effect of BART construction and operations on local parking, traffic, law enforcement, and other public services.
- . The timing, nature and financing of local capital improvements.

To examine these questions, the impact of BART on local government financial policies was examined in each of the five BART Impact Program case study cities¹. The findings from the case study cities were supplemented by a general review of the impact of BART on the financial policies of Berkeley and the BART counties.

1. FISCAL TRENDS IN CASE STUDY CITIES COMPARED TO CALIFORNIA CITIES AS A WHOLE

The 1960's was a period of extremely rapid population growth in the Bay Area, with much of the growth occurring in Contra Costa and Alameda counties. During this period, both the nature and amount of increase in local expenditures and revenues in the Bay Area paralleled that of the rest of the State of California. Major statewide trends included:

- . Decreases in the importance of property taxes in relation to the total revenues available to local governments. Although the property tax in most Bay Area cities remains the single most important local revenue source, the sales tax, State in-lieu taxes, Federal revenue sharing and other grants provide substantial supplements.

¹ San Francisco, Oakland, Richmond, Walnut Creek and Fremont.

- . Dramatic increases in tax levies (the amount of money levied when the tax rate is applied to the assessed valuation) were accompanied by relatively stable local tax rate trends.
- . California cities in general, and the Bay Area cities in particular, have tended to move away from general obligation debt as a means to finance capital improvements, turning instead to revenue bonds and lease purchase plans.

2. THE IMPACT OF THE BART DEBT AND TAX RATE ON LOCAL TAX RATE DECISIONS

One of the primary objectives of the Local Government Finance Task was to determine to what extent, if any, the BART debt and tax rate influenced local tax rate decisions. Task research efforts failed to establish any perceptible effect of the BART tax on local government tax rate decisions. This lack of effect resulted from a perception by the local officials that the BART tax rate really was beyond their control or political accountability. Further, the BART construction period in the 1960's was a time of rapid population growth in the Bay Area. This growth generally required an increase in the amount of local public services and facilities. Tax rate decisions to finance service increases and facilities expansion were made largely independent of any consideration of the BART tax rate.

3. THE IMPACT OF BART ON LOCAL CAPITAL AND OPERATING EXPENDITURES

The second area of investigation was BART's impact on local budgets. Research in this area was directed at determining to what extent, if any, the construction and operation of BART resulted in additional expenditures or revenues for local governments. Based upon an analysis of the experience of the five case study cities, the project team concluded that:

- . BART construction in San Francisco had the effect of providing funds as well as incentives for the city to spend its own funds to beautify areas surrounding BART stations. BART impacts on San Francisco's budget were limited to some serious parking overflow problems and minor additional police and maintenance costs.

- . BART's impact on Oakland's budget was somewhat mixed, with the City incurring some additional costs for the BART right-of-way maintenance and losing some property tax revenues as a result of BART construction removing some taxable property from the tax rolls. BART was, however, a factor in attracting some significant additions to tax rolls.
- . BART had an extremely positive impact on Richmond's property tax revenues by attracting substantial new taxable property to the downtown core area. Richmond further benefitted from additional BART monies for construction of grade separations over and above the actual cost of constructing those separations.
- . The impact of BART construction and operations on the two suburban case study local governments of Fremont and Walnut Creek was limited to serious parking overflow problems.

4. THE IMPACT OF BART ON THE TIMING, NATURE, AND FINANCING OF LOCAL CAPITAL IMPROVEMENTS

The third and final major research task was to determine to what extent public monies spent for BART may have caused local officials to defer, or change the scope of local capital improvement projects. Furthermore, this task looked at ways in which BART construction may have affected the financing approach used to pay for local improvements.

A review of the experience of the case study cities led to the conclusion that BART:

- . Caused some acceleration in improvements that were in some way related to BART's construction.
- . May have resulted in some slight deferral and changes in the scope of capital projects totally unrelated to BART.
- . Opened up, in the case of San Francisco and Oakland, new financing approaches for redevelopment efforts that had significantly beneficial effects on the finances of both cities.

* * * * *

Overall, BART had a beneficial impact on local finances in that it:

- . Provided cities with access to alternative funding sources and financing approaches.
- . Played an instrumental role in attracting new taxable property in some areas.

BART's negative impact was limited to:

- . Overflow parking problems.
- . Minor operating costs and losses of property tax revenues.

In general, BART's impact was found to be positive in the downtown core areas of San Francisco, Oakland and Richmond, and relatively neutral in the suburban areas of Fremont and Walnut Creek.

The policy implications of these conclusions may be summarized as follows:

- . Cities can take advantage of rapid transit construction to further redevelopment objectives by linking capital improvement priorities to transit development plans.
- . In terms of adverse impacts of rapid transit, officials, particularly in suburban areas, should focus policy formulation and planning efforts on likely traffic and parking problems.
- . Local officials should not view transit debt as an effective constraint on local financing plans.
- . The development opportunities associated with rapid transit suggest that policies be developed which allow local governments to leverage future development using transit-related growth.

In general, the BART experience indicates that transit can be used effectively especially by large cities, to further local improvement objectives and benefit local revenues.

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I. INTRODUCTION

1. THE BART IMPACT PROGRAM

The BART Impact Program (BIP) is a comprehensive, policy-oriented study and evaluation of the impacts of the San Francisco Bay Area Rapid Transit (BART) system. The BIP covers the entire range of potential rapid transit impacts, with major projects covering impacts on traffic flow, travel behavior, land use and urban development, the environment, the regional economy, social institutions and life styles, and public policy. The incidence of these impacts on population groups, local areas, and economic sectors is being measured and analyzed.

2. THE PUBLIC POLICY PROJECT

The Public Policy Project can be viewed as a major integrating chapter in the overall BART Impact Program. Each BIP project measures and evaluates BART's impacts on a variety of social, economic, transportation and community factors. The Public Policy Project, in turn, measures not only the direct and indirect impact of BART on the political process but also how impacts measured and evaluated in other projects result in changes in the local policy-making process and outcomes.

More specifically, the Public Policy Project includes an examination of:

- . The political process and behavior that occurred locally (neighborhood, city, region) because of BART.
- . The public policy change or decision, if any, that resulted from this interaction between a BART impact or expected BART impact and the community, interest groups, public officials and so forth.
- . The implications of these public policy impacts and all other BART impacts on local governmental policy decisions or lack of decisions.

This paper specifically assesses the impact of the construction and operation of BART on local government budgets and financial policies. Specifically, this study included analysis of the following three areas:

- . The willingness of local officials to raise, lower or maintain the existing tax rate.
- . Local capital and operating expenditures, stemming from the effect of BART construction and operations on local parking, traffic, law enforcement and other public services.
- . The timing, nature and financing of local capital improvements.

3. ORGANIZATION OF THIS PAPER

This working paper presents findings and conclusions regarding the impact of BART on the financial policies and budgets of local governments in three major areas. First, the impact of BART debt on local tax rate decisions is described particularly considering the extent to which local officials' awareness of the BART debt may have influenced local tax rate decisions. Second, the impact of BART construction and operating requirements on local budgets in terms of increased local costs or revenues is documented. Third, the influence BART construction activities may have had on the timing or scope of local capital improvement policies is described. Finally, the report outlines overall conclusions and implications for other local governments considering rapid rail transit investment.

II. OBJECTIVES AND METHODOLOGY

This chapter begins with a description of the task objective and the major related research questions. The chapter concludes with assumptions regarding financial policy-making in local government.

The objective of this task is to determine to what extent the development of BART acted as either a direct or indirect influence on local government budgets and financial policies. Such a broad and complex objective invited a variety of research approaches. In order to focus task efforts on the task objective and still encompass all relevant issues, three major research questions were formulated:

- . To what extent did the perception of the BART tax rate and the BART debt influence the willingness of public officials to raise, lower or maintain the tax rate?
- . To what extent did BART-related construction and operation impact local capital and operating expenditures? As a basis for examining BART's budgetary impact on local government, the scope of this question includes such things as traffic and parking changes, planning studies, and any additional service expenditures or revenues that may be attributable to BART.
- . To what extent did either perceived favorable or adverse impacts of BART affect local debt, capital improvement strategies, or expenditure and revenue policies in general?

In assessing BART financial policy impacts, the study team used the No-BART Alternative as the standard of what would have happened without BART. Research efforts focused on identifying if BART had contributed to financial consequences that simply would not have occurred or would have occurred differently without BART. The No-BART Alternative (NBA) was defined by MTC as the transportation system judged most likely to have evolved in the Bay Area had the decision to build BART not been made in 1962. The NBA includes no changes in the Bay Area freeway and street system. But bus transit service was assumed at its 1973 peak with some improvement in frequencies but no new routes. No major capital investments for transportation were assumed in the absence of BART except 15 buses for use on MUNI's Mission Street corridor.

Without exception, the key informants interviewed refused to ascribe any fiscal or financial policy effects to BART. Consequently, much of the interviewing focused on the budgetary process of each case study city and prevailing budgetary trends during the BART construction period. The objective of this approach was to determine any possible direct or indirect influence even the peripheral perception of the existing and projected BART financial burden may have exerted as local officials allocated city resources and planned capital investments. Even after scrutinizing the budgetary trends of the BART construction period, key informants still maintained that BART simply did not play any discernible role in local decisions. Consequently, much of the evidence of the rather significant local financial impact of BART in some cities had to be inferred from a thorough review of documents including:

- . Reports from other BART Impact Program projects.
- . Local budgets and capital improvement programs.
- . Annual financial reports of California cities and counties prepared by the State Comptroller.
- . Newspaper clippings.
- . Various studies conducted by other agencies, such as the Legislative Analyst of the State of California.
- . Minutes of council and other public meetings.

In order to examine BART's influence on local government policies, a case study approach was adopted. The five BART Impact Program case study cities were selected for in-depth analysis: Fremont, Oakland, Richmond, Walnut Creek, and San Francisco. These cities represent a wide spectrum of different local governments affected by BART. The project team also examined the impact of BART on financial policies in Berkeley because of Berkeley's unique decision to place BART underground and pay for the extra cost with local property taxes.

III. LOCAL GOVERNMENT FISCAL TRENDS

In this chapter the major fiscal trends of local government during the 1960's are described to provide some background for assessing BART's impact on local governments in the Bay Area.

Overall, fiscal trends in case study cities paralleled those for California cities as a whole. The 1960's and 1970's were characterized by rapid growth in both public expenditures and revenues. Rising property values, particularly in the Bay Area, provided a fast-growing potential source of revenues. Generally, however, conditions of population growth and rising service level demands and service delivery costs, particularly in the area of public safety, have resulted in expenditures increasing faster than the natural increase in property tax revenues. Thus political resistance to increasing tax rates on rising property values has resulted in an increased emphasis on non-property tax revenues. Furthermore, capital debt financing has tended to favor approaches that would not result in discernible increases in the property tax burden.

More specifically, trends within the case study cities, the City and County of San Francisco, and Alameda and Contra Costa counties in comparison to statewide trends are presented in the following sections in four categories:

- . Total expenditures and revenues
- . Revenue sources
- . Property tax rate and tax levies
- . Bonded debt

Each of these sections includes background findings that provide some perspective for understanding BART's potential and actual impact on local government financial policies.

1. BOTH LOCAL EXPENDITURES AND REVENUES INCREASED SUBSTANTIALLY BETWEEN 1964 AND 1976

As revenue sources changed and the tax burdens of school and other special district jurisdictions increased, the case study cities along with California cities in general experienced major increases in both expenditures and revenues. Generally, expenditures grew faster than revenues with the result that budgetary decisions in the late 1960's in most of the case study cities were made against a backdrop of severe fiscal pressures. Major expenditure and revenue trends in the case study cities and California cities as a whole are graphically displayed in Appendix C.

Also depicted in Appendix C are the trends in capital outlays. As is apparent from the graphs, capital outlays in all cities remained relatively constant, rising slowly but far less rapidly than the overall inflation index and expenditures in general. An exception is the suburban city of Walnut Creek, with capital expenditures in the 1970's almost keeping pace with the climb in total expenditures. In real dollar terms, this relatively constant rate and percentage of total budgets represented by capital outlays appear to have actually declined, resulting from the desires of local officials to finance operating expenditure increases without raising tax rates.

Both Alameda and Contra Costa Counties experienced annual average expenditure and revenue increases similar to those for all California counties--increases of about 17% a year over the period 1965 to 1975.

2. DECREASES IN THE RELATIVE IMPORTANCE OF PROPERTY TAX REVENUES HAVE BEEN ACCOMPANIED BY INCREASES IN REVENUES FROM STATE AND FEDERAL SOURCES

Revenue sources in both cities and counties shifted markedly during the BART construction period. Decreases in property taxes as a relative proportion of local revenues have been offset by substantial increases in non-property tax revenues from "other agencies" (including such sources as revenue sharing, vehicle-in-lieu taxes, gas taxes, alcoholic beverage taxes, and so forth). The substantial increase in revenues from State and Federal sources has had the effect of reducing local dependency on revenue sources that are exclusively local in nature.

3. DRAMATIC INCREASES IN TAX LEVIES AND COMPOSITE TAX RATES WERE ACCOMPANIED BY RELATIVELY STABLE LOCAL TAX RATE TRENDS

Part of the reason for the decreased relative importance of property taxes was a general reluctance on the part of local governments to increase the rate at which property was taxed. Exhibits in Appendix C graphically illustrate the relative stability of the local tax rate, both in the case study cities, in California cities as a whole, and in Alameda and Contra Costa Counties. The relatively stable municipal tax rate is accompanied by steady substantial increases in the tax levy (the tax revenue actually expected from applying the tax rate to assessed property values), and the composite tax rate (the total tax rate for each jurisdiction comprised of county, city, school district, special district, and so forth).

The rising tax levies and assessed values may well have tended to act as "downward pressures" on the local tax rates. On the other hand, increasing assessed valuations have reduced the necessity to raise the tax rate by automatically inflating the tax base. The increasing property values, however, have also had the effect of making both the tax base and the taxpayers more sensitive to even slight variations in the tax rate.

4. IN GENERAL, CALIFORNIA CITIES HAVE TENDED TO MOVE AWAY FROM GENERAL OBLIGATION DEBT AS A MEANS OF FINANCING CAPITAL IMPROVEMENTS

General obligation bonded debt has generally declined in absolute terms and consistently declined in relation to assessed valuations. Total debt, however, which includes revenue bonds, can be seen to increase substantially in both Oakland and San Francisco as well as in California cities as a whole.

Fremont, Walnut Creek and Richmond all saw increases in long-term general obligation debt during the early 1960's. However, this increase was followed by a steady decline as outstanding bonds were retired and no new general obligation bonds were issued.

The relative stability of long-term debt together with the stable property tax rate have resulted from:

- . Unwillingness on the part of local city officials to add to the rapidly increasing composite tax rate.
- . The completion of major capital improvement projects that comprised the World War II backlog of capital projects.
- . Alternative capital financing approaches, such as the "lease purchase" plan and the formation by local governments of non-profit municipal improvement corporations. These approaches, together with the increased popularity of revenue bonds, have enabled local units to borrow without incurring long-term debt backed by the local tax base.

5. ALTHOUGH CONFORMING TO GENERAL TRENDS, EACH CASE STUDY EXHIBITS UNIQUE FISCAL CHARACTERISTICS

Although financial trends in each case study city resembled those of Bay Area cities in general, financial policy decisions were made in an environment unique to that particular city:

- . Berkeley--During the 1960's, Berkeley's financial policy reflected an increasing willingness on the part of the City Council to innovate and to increase the level of government services. In contrast to other case study cities, any reluctance to increase the tax rate was more than offset by a desire to improve Berkeley as a place to live. As an example, Berkeley citizens voted overwhelmingly to place the BART line underground and to pay for the added cost with an increased tax rate.
- . Fremont--As a relatively new city (1956) with one of the largest land areas in the state, Fremont burgeoned from a small city of 20,000 to the present population of 115,000. Consequently, the focus of public expenditure and revenue decisions was on expanding municipal services to meet the requirements of rapid growth.
- . Oakland--Of all the case study cities, Oakland faced the most severe fiscal strains. Caught in a squeeze between a declining population and business base and rising service demands and costs, almost every budget year represented a fiscal crisis. In addition, Oakland's relatively high local and composite tax rate created extreme pressure on city officials to reduce or at least avoid increasing the tax rate. At the same time, property values and sales tax revenues in Oakland rose far less rapidly than the overall inflation index.
- . Richmond--A deteriorating downtown and population decline have not adversely affected Richmond's public fiscal strength, since Richmond's characteristically strong industrial and commercial tax base have placed the city in a relatively sound fiscal position.

- . Walnut Creek--As with Fremont, Walnut Creek experienced substantial growth during the 1960's, increasing from a population of around 16,000 to over 45,000 by 1975. Walnut Creek's middle to high income population resulted in property value increases and sales tax revenues which generally kept pace with inflation. During the 1962 to 1976 period, there was only one year--1968--in which serious fiscal strains caused by higher than planned costs for key capital projects resulted in a significant tax rate increase.
- . San Francisco--Since 1970, San Francisco has responded to increasing fiscal pressures by reducing the property tax rates and attempting to introduce alternative sources of revenue. As a result, City officials have been diverting funds from capital to operating expenditures, resulting in a decrease of capital expenditures as a proportion of the total budget.

VI. THE IMPACT OF BART DEBT ON
LOCAL TAX RATE DECISIONS

One of the major research objectives of this task was to determine the extent to which, if any, the BART debt burden and tax rate influenced local officials in making tax rate decisions.

There were no indications, in any of the case study cities, that the BART debt burden or tax rate had any discernible influence on local tax rate decisions. As one former case study city mayor put it "the BART tax rate was simply not a factor in (city) tax rate decisions."¹ In each of the case cities, when asked to describe tax rate trends and major factors influencing those trends, key informants invariably failed to mention the BART debt or tax rate as a factor. Follow-up questioning that explicitly mentioned BART as a possible influence in tax rate decisions, also failed to reveal that, in the memories of the key informants, at least, there was any connection between tax rate decisions and the BART tax burden.

Major explanations for a lack of BART impact on local tax rates were:

- . The BART tax rate was viewed by public officials as beyond their control or political accountability.
- . Other local factors, unrelated to BART, such as the fiscal crises in Oakland, overshadowed BART as a potential factor influencing tax rate decisions.

A finding of the Bay Area Transit Finance Public Opinion Survey also suggests an additional reason why local governments may have been politically insensitive to the BART property tax burden in relation to the overall tax burden. A major study finding is that many taxpayers are ignorant as to the role of property taxes in transit financing. Only 38% of the voters polled were aware that property taxes subsidized transit. Of those aware of property taxes as a transit funding source, property taxes ranked fourth in importance whereas, in reality, property taxes rank first in relative importance.² This finding is consistent with the low perceived political visibility of the BART tax rate in the case study cities.

¹Robert Schroder, Supervisor, Contra Costa County and former Mayor and Councilman, City of Walnut Creek, Interviewed on April 21, 1977.

²Tyler Research Associates, The Bay Area Finance Public Opinion Survey, August, 1975, p. 17.

1. THE HIGH COMPOSITE TAX RATES IN BERKELEY HAVE LED TO AN INCREASINGLY CONSERVATIVE LOCAL TAX RATE POLICY

During the BART period, Berkeley invested heavily in community services and facilities resulting in one of the highest municipal property tax rates in California. Public concern over adverse impacts of an above ground rapid transit line resulted in Berkeley's willingness to pay the additional costs necessary to underground BART within Berkeley. The principal reason for rejecting the above ground line in favor of the underground was public desire to avoid erecting a barrier between the white and black segments of the community.³ Additional reasons put forth in favor of the underground were:

- . The opportunity to utilize station air rights as an economic investment.
- . Preservation of the City's environment.

The almost unanimous voter approval (86% in favor) registered in the 1966 election indicates that the undergrounding proposal, in spite of its extra costs, enjoyed broad based support. None of the key informants interviewed, however, saw any relationship between Berkeley's investment in the subway and subsequent local tax rate decisions. Two major reasons for the lack of any BART impact on tax rate decisions in Berkeley were suggested:

- . The City Council, for three to four years following the bond issue to underground BART, believed generally that the investment returns from the City's ownership of the station rights would more than offset the extra tunneling costs.
- . The BART tax rate, even with the extra tunneling costs, was still an insignificant part of the total tax rate.

The high property tax rate in Berkeley did, however, cause the City Council to begin exploring alternative revenue sources, such as income tax and a real estate transfer tax. Because of well organized resistance, however, neither of these efforts opened up any new revenue sources to Berkeley, and by 1974 the City and Composite rates (of which BART represented around 5%) had reached a "saturation" point. And, although the BART tax rate did contribute to the overall burden, BART was not cited as even indirectly influencing current attempts to stabilize or reduce the tax rate.

³Bill Hanley, former City Manager, City of Berkeley, 1966-1972, interviewed May 9, 1977.

2. FREMONT'S TAX RATE POLICY WAS INFLUENCED BY THE RAPIDLY RISING COMPOSITE RATE AND A DESIRE TO MAINTAIN A COMPETITIVE TAX CLIMATE

During the BART construction period, local tax rates in Fremont remained fairly constant. As in other Bay Area cities, however, the composite rate increased dramatically.

The relatively stable local tax rate in Fremont was attributed by key informants to:

- . The skyrocketing composite tax rate of which BART was a very small portion (less than 5%).
- . Political pressure to present a competitive tax climate to prospective commercial and industrial investors.

The BART tax rate was discounted as a consideration in tax rate decisions. One official pointed out the overwhelming acceptance of an additional tax burden in 1974 to subsidize the AC Transit BART feeder service as supporting his assertion that the BART-related property tax burden lacked either a direct or indirect impact on local tax rate decisions.⁴ The voters, in effect, saw transportation as a service they were willing to pay for, relatively unrelated to other traditional municipal services and capital improvements.

3. BART TAX REQUIREMENTS WERE NOT GENERALLY PERCEIVED AS IN ANY WAY RELATED TO THE OVERALL TAX RATE DECLINE IN OAKLAND

Oakland's budget during the 1960's was plagued by severe fiscal strains. Throughout this period, budget and tax rate policy were guided by two major objectives:

- . Take full advantage of non-property tax revenue sources to reduce the already heavy property tax burden.
- . Maintain or reduce the city tax rate by cutting services and reducing expenditures to avoid projected budgetary deficits.

⁴Donald F. Dillon, Fremont City Councilman and former Mayor, interviewed on March 21, 1977.

Neither of these policy objectives was in any way attributable to the BART tax burden. Rather, the depressed state of Oakland's economy and the relatively high composite and local tax rate combined to foster an environment of extreme fiscal restraint. Only one key informant--a former appointed official--suggested that the added tax burden of BART plus all of the publicity given to BART's financial problems may in fact have made city officials more reluctant to increase tax rates.⁵ This opinion, however, was based on a general "feeling" and was not supported with any specific examples.

Oakland's response to BART fiscal problems in 1967, however, gives some sign that the City Council felt the property tax burden had reached its limit. The Council reluctantly supported use of bridge toll revenues to rescue BART but adamantly opposed any further increase in property taxes.

4. RICHMOND'S STABLE TAX RATE RESULTED FROM A BASICALLY SOUND FISCAL POSITION

No evidence could be found that supported any relationship between the BART tax rate and Richmond City officials' attitude toward the City tax rate. The relative stability of the City tax rate is attributable to Richmond's sound fiscal position resulting from the City's strong commercial and industrial tax bases.

5. WALNUT CREEK'S STABLE TAX RATE WAS ATTRIBUTABLE TO THE CITY'S HEALTHY FISCAL STATUS

Throughout the 1960's and early 1970's Walnut Creek enjoyed a healthy fiscal climate. Only once, in 1968, did the tax rate increase substantially. This increase was brought about by a need to cover higher than expected capital project costs accompanied by an anticipated drop in sales tax revenues. Walnut Creek was the only case study city where sales tax revenues comprised a higher percentage of total revenues than property taxes. Although the sales tax percentage of total revenues declined slightly over the period, sales taxes remained relatively more significant as a local revenue source than the property tax.

There was a lack of significant political pressure in relation to the city property tax rate. Walnut Creek's relatively heavy reliance on the sales tax and the rapidly expanding property tax base both tend to support the general findings that the BART tax rate did not have any noticeable impact on local tax rate decisions.

⁵John Morin, Assistant City Manager, interviewed on April 21, 1977.

6. IN SAN FRANCISCO, BART'S DEBT AND TAX RATE WERE PERCEIVED BY LOCAL OFFICIALS AS BOTH INSIGNIFICANT IN RELATION TO THE TOTAL TAX BILL AND BEYOND ANY LOCAL CONTROL

The tax rate in San Francisco fluctuated more than in any of the other case study cities. There was, however, no evidence that either the BART tax rate or debt burden in any way influenced this fluctuation. The two major reasons for this lack of influence were:

- . The BART tax rate, which comprises between 5% and 7% of the total tax bill paid by San Franciscans, was perceived as insignificant in relation to other city fiscal pressures.
- . City officials and voters appeared to view the BART tax rate as beyond both the control and political liability of the City and County. As a result, the BART tax rate was accepted as given and not considered consciously as a constraint on City spending or revenue sources.

7. BASED ON THE EXPERIENCE OF THE CASE STUDY CITIES, BART DID NOT INFLUENCE LOCAL TAX RATE DECISIONS EITHER DIRECTLY OR INDIRECTLY

In summary, the BART tax rate was not perceived as influencing either directly or indirectly, local tax rate decisions because:

- . The BART tax rate comprised such a small percentage of the overall composite tax rate.
- . Local officials did not feel politically accountable for the BART tax rate.
- . Other factors, such as the need to present a competitive tax climate--a need unaffected by the BART tax rate since it in most cases affected regional jurisdictions equally--and a rising composite rate far outweighed any policy impact the BART tax rate may have had.

V. THE IMPACT OF BART CONSTRUCTION AND
OPERATIONS ON LOCAL BUDGETS

The second major research objective was to examine BART impact on the budgets of the case study cities.

Specifically, the project team attempted to determine whether the case study cities either spent additional money, lost revenues, or gained additional revenues due to either the construction or operation of BART. In addition, the research into BART's impact on local budgets also included BART's impact on both traffic and parking conditions that may have been in the form of immeasurable costs to the cities.

In general, case study cities succeeded in obtaining BART financial participation in local capital projects. There were suggestions that a conscious effort was made in some cities to determine the relationship of every proposed street improvement project to BART so that some level of BART participation could be obtained if any BART impacts were projected.⁶ In addition to BART financial participation in local projects, several case study cities received BART-related benefits in the form of local "non-cash credits" as matching amounts to obtain Federal redevelopment grants. Under the redevelopment and neighborhood rehabilitation programs of that time, local investments in designated redevelopment areas could be valued and counted as the matching portion required to receive Federal redevelopment funding. This matching portion is referred to as a "local non-cash credit."

In addition to providing non-cash credits for some redevelopment efforts, BART construction affected local tax rolls both adversely by removing some property from the tax rolls, as well as positively by serving as one element in attracting additional private development, thus increasing tax rolls.

Negative impacts of BART were limited to minor increases in costs for security and maintenance and overflow parking problems, particularly in the suburban areas.

The rest of this chapter presents the findings from the case study cities that support these general conclusions.

⁶Armand Werle, City Manager, Lewiston, Idaho and former Public Works Director City of Walnut Creek, telephone interview May 11, 1977.

1. ALL MAJOR BART-RELATED IMPROVEMENTS IN FREMONT WERE GENERALLY CONSISTENT WITH CAPITAL IMPROVEMENT OBJECTIVES ESTABLISHED INDEPENDENTLY OF BART

Capital Improvements

Two major capital improvement requirements or city service needs were principally attributable to BART. One was the grade separation for both the BART guideway and the Western Pacific Railroad track which, although required by BART, would most likely have been built in the NBA scenario, although it was totally financed by a combination of BART, State and railroad fundings. The other project is the BART station access from Civic Center Drive, which again was required and paid for by BART and turned over to the City. The major projects that were cited by key informants as being in some way attributable to BART are summarized in Exhibit I. As the exhibit indicates, the street improvements in the vicinity of the BART station were undertaken principally to improve traffic circulation within, and access to, the newly developing Central Business District.

Parking And Traffic

The single most visible impact of BART in Fremont has been the overflow parking problem around the BART station. The City's response to this overflow parking has been to request that BART provide additional parking. In addition to being a safety hazard and a nuisance, the additional on-street parking around the BART station has, in effect, prevented Fremont from adding a planned bicycle path along Walnut Way. To improve traffic conditions, the City has added a traffic signal at the intersection of two major BART station access streets and extended some red curbing to prohibit parking around the driveways along Walnut Way.

Service Levels And Operating Costs

The Fremont Police Department has reported some increases in auto-related crimes--theft and burglary--in the vicinity of the BART station. These crime increases, however, have been small in proportion to crime increases in other neighborhoods and have not resulted in any patrol or staffing changes.

Summary

BART station access requirements were perceived as a minor factor in initiating some extensive street improvements totalling over \$1 million. BART totally provided the funds needed to complete two projects beneficial to the City--the railroad grade separation and the BART station access from Civic Center Drive.

EXHIBIT I
Local Government Finance Task
SUMMARY OF MAJOR BART-RELATED
CAPITAL BUDGETARY IMPACTS IN FREMONT

Nature Of Improvement	Reason For Improvement	Total Cost/Financing Approach	Net Budgetary Impact
1. New parking lot, presently under construction	Higher than projected number of park and ride BART patrons	Totally financed by BART (Federal aid urban money)	No net cost to city; stores near BART station have been adversely impacted by overflow parking
2. Widening and extension of Walnut Way	Improve traffic flow in vicinity of BART station; BART was a relatively minor reason for improvement	\$300,000; BART paid \$18,000	Net cost of \$282,000 to city
3. Modernizing and widening of Peralta/Mowry intersection	Improve traffic flow in the Central Business District. Improved access to BART was a relatively minor reason for the improvement	\$400,000, totally financed by a Federal grant	No net cost; difficult to determine proportion of this amount attributable to BART
4. Widening and extension of Paseo Padre Boulevard and Stevenson Boulevard	Improve traffic flow in vicinity of BART station, Central Business District and the city government complex. BART again was a minor reason for this improvement	\$300,000, totally financed by the city (gas tax funds)	Net cost of \$300,000
5. Street access to BART station from Civic Center Drive	To improve access to the BART station	BART paid for street in total and gave to Fremont	No net cost
6. Niles Road Grade separation	To permit an uninterrupted right-of-way for BART line	Paid for in total by combination of state, railroad and BART funds	No net cost

2. MINOR COST IMPACTS AND REVENUE LOSSES IN OAKLAND WERE MORE THAN OFFSET BY NON-CASH REDEVELOPMENT CREDITS

Minor budgetary impacts in the form of increased maintenance costs, property tax revenue losses, and capital improvement outlays were more than offset by:

- . Substantial aid to the City's extensive downtown redevelopment program in the form of non-cash credits based on BART construction.
- . Adequate compensation for any City costs related to capital improvements undertaken because of BART.

Capital Improvements

Capital improvements related to BART construction in Oakland are shown on Exhibit II. Only two improvements--the Coliseum Walkway and the breakthrough of the wall between the Civic Center Plaza and the downtown BART station, were paid for entirely by a combination of outside funds.

The other capital projects reflected city priorities established independently of BART. These projects, totaling \$3 million, were combined with BART projects to minimize disruption and take advantage of potential cost savings.

BART construction had its greatest budgetary impact by generating more than \$6 million in non-cash credits to finance more than \$65 million of redevelopment. Since these credits were used by the Redevelopment Agency, they represent only an indirect impact on the City's budget. Nonetheless, the non-cash credits enabled the City to pursue important local objectives in revitalizing the appearance and tax base of the downtown area.

Traffic and Parking

Finally, BART has had some impact on City traffic patterns and policies, namely:

- . A significant reduction in "sight distance" where city streets run parallel or intersect in the vicinity of BART support columns. To reduce the inherent danger resulting from concrete columns, the City has re-marked traffic intersections so that motorists now have improved visibility in all directions.

- . Additional signing has been required in some places to advise motorists of street alignment changes that came as a result of BART construction.
- . Two one-way streets in the vicinity of the downtown 12th Street Station, established to smooth traffic flows during BART construction of the Broadway underground line, have become permanent. This is in part attributable to BART-related traffic circulation requirements and in part to the anticipated requirements of the Grove-Shafter Freeway extension.
- . A 25% reduction in the number of vehicles parked in downtown Oakland and the elimination of between 150 and 200 metered spaces.

Service Levels And Operating Cost Impacts

BART's single measurable impact on City service requirements has been the required maintenance of the BART right-of-way landscaping. The current annual estimated cost of this maintenance is \$70,000. Although this amount is small in relation to the total \$132 million city budget, the amount is significant. For example, in 1971-72, when Oakland added a total of 17 new positions, the BART right-of-way maintenance positions represented 12% of the staff additions in a budget year in which staff levels in all departments either were held constant or reduced.

Planning Studies

In addition to added maintenance requirements, Oakland undertook three major planning studies to determine the development potential around three Oakland BART stations. City contributions in cash and staff time were a maximum of \$49,000.

Revenues

On the revenue side, BART was responsible for slightly reducing the City's revenue potential by removing \$28 million of real property from the tax rolls. The estimated, cumulative revenue loss since 1965 is around \$3 million.

The removal of an estimated 200 parking meters during the Broadway underground construction has cost the City close to \$60,000 a year in lost meter fees for a cumulative estimated total of between \$500,000 and \$600,000.

EXHIBIT II
Local Government Finance Task
SUMMARY OF MAJOR BART-RELATED
CAPITAL BUDGETARY IMPACTS IN OAKLAND

Nature Of Improvement	Reason For Improvement	Total Cost/Financing Approach	Net Budgetary Impact
1. Broadway beautification--the replacement of the ordinary sidewalk above the Broadway underground BART line with a high grade sidewalk	To enhance appearance of the downtown Oakland shopping area. BART construction provided the opportunity for this improvement	\$1,000,000 in excess of the normal sidewalk replacement cost paid for by BART. Cost was paid for by a Local Improvement District made up of Broadway merchants.	No direct budgetary impact
2. Breakthrough of wall between City Center Plaza and the downtown BART station	To provide access between City Center and the downtown BART station	\$1,490,000: . \$90,000 from BART . \$1,200,000 from an UMTA grant . \$200,000 in tax increment financing by Oakland's Redevelopment Agency	No direct budgetary impact
3. Construction of a walkway between the Oakland-Alameda County Coliseum Complex and the Coliseum BART station	To improve attractiveness and safety of riding BART to Coliseum events	\$1,575,000: . \$825,000 from UMTA . \$375,000 from BART . \$375,000 from the Oakland-Alameda County Coliseum Complex, Inc.	The \$375,000 from the Coliseum represented an indirect cost to both Alameda County and Oakland since it came from a fund to which both had contributed for Coliseum improvements
4. Widening of East 8th Street and increasing the elevation of the Hegenburger Road overhead structure	To widen 8th Street beyond width required for improved traffic circulation near BART	Total city cost estimated at \$467,000; additional costs were paid by BART	\$467,000
5. Widening and construction of Grove Street 24 feet wider than required for placement of BART line in the median	To improve local traffic circulation	Total city cost, in addition to BART-paid costs, was \$547,250	\$547,250

Summary

Richmond received both substantial direct and indirect income as a result of BART. In all, Richmond realized a minimum of between \$3 million and \$4 million in non-cash credits and savings. Since any additional outlays attributable to BART were totally covered by the State's separated grade crossing reimbursement, the \$3 million to \$4 million represents a net positive benefit to Richmond. In addition to these direct effects of BART, BART was the primary factor in the location of the Social Security Payments Building in downtown Richmond. Since this building was built on a lease-back arrangement, this building is subject to local taxation. The estimated tax revenue from that building alone, valued at \$30,000,000, are equivalent to the tax revenues for the entire downtown area prior to redevelopment.

4. BART'S PRIMARY COST IMPACT ON WALNUT CREEK HAS BEEN RELATED TO STREET AND TRAFFIC IMPROVEMENTS AND FEEDER BUS SERVICE

Although BART's budgetary impact on Walnut Creek was not very significant, there were, nonetheless, some minor BART-related costs.

Capital Improvements

Walnut Creek undertook several street improvements in anticipation of BART's impact on street traffic patterns. Exhibit IV summarizes the principal BART-related capital improvements undertaken by Walnut Creek. In the absence of any reasonable cost estimates, it is difficult to determine the approximate cost impact of BART on Walnut Creek's capital improvement costs. Several key informants indicated, however, that these projects, with one or two exceptions were only peripherally related to BART. By agreement, BART paid any direct costs associated with BART; the balance in Walnut Creek, as in the other case study cities, was paid by the City. One exception has been the widening and modification of Ygnacio Valley Road--a project now underway. Although this total project is estimated at over \$2 million, the portion related directly to BART--the installment of a protected left turn lane--is a relatively minor part of the entire project.

Parking And Traffic

Increased traffic congestion caused by BART patrons had a significant impact on selected intersections in Walnut Creek. The absence of the protected left turn lane at the intersection of Ygnacio Valley Road/Oakland Avenue has resulted in a significant increase in the number of traffic accidents at this intersection. As described earlier, this traffic impact has resulted in some new construction.

EXHIBIT IV

Local Government Finance Task
MAJOR BART-RELATED CAPITAL COSTS AND
REVENUES IN WALNUT CREEK

Nature Of Improvement	Reason For Improvement	Total Cost/Financing Approach	Net Budgetary Impact
1. California Boulevard construction	To relieve congestion on Main Street, the major north-south thoroughfare in the City Center. Improved access to BART station was a minor factor.	Total cost paid for by 1966 Bond Issue. No cost estimates available. BART, however, paid 50% of some costs in immediate vicinity of BART station.	Not known
2. Realignment of Oakland Avenue	To clear BART right-of-way	City paid 10% of the related right-of-way costs. No cost estimates available.	Not known
3. Improvement of Intersections: Oakland Avenue-Ygnacio Boulevard North California Boulevard-Fringie Avenue-Madison Street North California Boulevard-Ygnacio Valley Road	To relieve traffic congestion on BART station access routes	No cost estimates available	Not known
4. Widening of Ygnacio Valley Road and installation of a protected left turn lane	To reduce the number of traffic accidents at the intersection. BART was really only one of several factors responsible.	\$2,000,000 with approximately one half funded by Federal Aid Urban Grant	\$1,000,000 net impact

As in the other suburban case study city, Fremont, the most significant negative impact on Walnut Creek has been the overflow parking in the vicinity of the BART station. As a matter of principle, the City, reasoning that BART was responsible to provide additional station parking at no cost to the City, refused to pay the City share of a new parking structure proposed by BART. Consequently, BART used these Federal funds to build extra parking facilities in Daly City. As a result, there is an excessive on-street parking demand that has caused Walnut Creek to make minor changes in the locations where parking is allowed. For instance, the curbing on one street in the vicinity of the station was restriped to allow parking on both sides of the street.

In all, the overflow on-street parking is perceived as a nuisance, but has not resulted in parking policy changes or measurable added costs.

Service Levels And Operating Costs

The most significant BART-related cost and service level impact to date has been the establishment of a City bus system that is essentially a BART-feeder service. This feeder service was introduced in response to a need to link the BART station with the downtown shopping and commercial area. Further, the feeder service was seen as a way to reduce the on-street parking demand in the vicinity of the BART station.

The \$130,000 annual budget for the bus system is financed from a combination of sources: 15% from fare box revenues, 50% from an override tax on business licenses in the downtown zone, and 35% from the general fund.

Summary

The real cost impact of BART on Walnut Creek was minimal. City capital improvement priorities, such as the construction of California Boulevard, benefitted from their linkage to BART. One key informant who had been heavily involved in the BART negotiations, indicated that Walnut Creek really benefitted favorably from BART's financial participation in any City improvement project that was in any way related to BART.⁷ Although the dollar amount of that benefit is uncertain, BART's impact appears to have been favorable, or at least neutral on the City's budget.

⁷Armand Werle, City Manager of Lewiston, Idaho, and former Public Works director of Walnut Creek, telephone interview, May 11, 1977.

5. SAN FRANCISCO SPENT OVER \$50 MILLION ON BART-RELATED IMPROVEMENTS AND, IN RETURN, RECEIVED SUBSTANTIAL OUTSIDE FINANCIAL ASSISTANCE OF \$20 MILLION AS A RESULT OF BART

For San Francisco, BART provided opportunities for investing City dollars and accelerating development of civic amenities that were consistent with the City's long-range development objectives.

Capital Improvements

Major capital improvements undertaken by the City were the major BART cost impacts on San Francisco. Exhibit V summarizes these improvements and their estimated costs.

Each of these improvements were integral parts of major redevelopment efforts. The major aspects of each project is summarized below:

- . The Embarcadero BART/Muni Station was not part of the original BART plans but was supported and financed by the City to provide access to BART in the new Golden Gateway Redevelopment area. Funding for the station was obtained from two sources:
 - Redevelopment Agency tax increment bonds were used to finance the station shell in excess of planned subway construction costs to be paid by BART.
 - Station finishing was financed by BART using funds originally planned for a West Portal Street subway.
- . A Market Street Beautification Project was sponsored by the City, representing a long-standing desire to upgrade substantially the appearance of Market Street. Planned BART construction on Market Street reduced basic beautification costs and provided a real incentive for moving ahead with the project in 1968 rather than at some later date. The project was financed largely through a general obligation bond issue approved by the voters in 1968. Of the \$30 million spent on this project, \$1 million was used for plazas and beautification of Mission Street in the vicinity of the 16th and 24th Street BART stations.

VI. THE IMPACT OF BART CONSTRUCTION ON
LOCAL CAPITAL IMPROVEMENTS

In this final research area, the project team attempted to determine to what extent the massive BART debt (\$500 million more than the combined general obligation debt for California cities in 1965) and construction requirement may have influenced:

- . The timing of local capital projects; that is, did local governments accelerate, defer, modify or drop altogether local projects wholly or in part because of BART.
- . The willingness of local governments to finance capital improvements with long-term, general obligation bonded debt.
- . Finally, the extent to which BART financing requirements may have influenced local governments to utilize new revenue or expenditure approaches.

The available evidence suggests that BART's major impact was to accelerate the timing of some capital projects that had already been planned. Thus, BART had, in some cases, the effect of shifting local capital improvement priorities to take advantage of BART construction plans.

During the peak of BART financing requirements in the late 1960's, California cities as a whole attempted to reduce their reliance on long-term general obligation bonded debt as a means of capital financing. The case study cities, as indicated earlier, fit this general pattern except that in Fremont, Richmond and Walnut Creek, the mid-1960's witnessed a substantial jump in general obligation debt financing followed by a steady decline after 1965.

The most significant new revenue strategy adopted by cities to pay for BART-related improvements was the increased use of tax increment financing, such as that used by San Francisco to finance the Embarcadero Station bond issue.

The following paragraphs present the findings on each case study city relevant to BART's impact on debt, capital improvement, and revenue strategies in local government.

1. BART'S CONSTRUCTION IN FREMONT DID NOT HAVE A PERCEPTIBLE
IMPACT ON CITY CAPITAL IMPROVEMENT OR DEBT STRATEGY

Neither BART's construction requirements nor related improvement opportunities appeared to have any effect on Fremont's capital improvement priorities. The mid-1960's was a period of heavy capital investment in key projects, most of which were not directly related to BART.

Fremont's capital requirements during the phenomenal growth period of the 1960's were immense. Numerous attempts to obtain voter approval for a number of large improvement projects failed during the early 1960's. Finally, in 1965 (three years after the approval of BART construction bonds) voters gave approval to lease-purchase the City Government building. Previously, the voters had twice rejected proposed bond sales to finance the City Government building. The success of the lease purchase plan was attributed to growing disenchantment with traditional long-term bonded debt financing in general, rather than to any perceived concern over the BART debt burden. The defeat of two proposed bond issues to finance a police building and street improvements in that same election is consistent with this observation. The narrow defeat of bonded debt in the 1965 election, however, appears to have been purely the result of a contest between the sponsors of the bond issues and their political opponents. Shortly afterwards, at the height of BART's financial controversy, the voters approved two of the largest city bond issues of the decade:

- . In 1967, bonds totalling \$1.6 million were authorized to construct a police building.
- . In 1968, bonds totalling \$2.1 million were authorized to acquire land and develop a central park.

In reviewing Fremont's bonded debt trends in the 1960's, it is apparent that fewer bond issues were presented to the voters. Of the bond issues presented after 1965, three out of five issues were approved, whereas previously only four out of 22 issues passed.

State legislation in 1966, which permitted public competition on non-profit corporation bonds, influenced Fremont and other Bay Area cities to rely less heavily on voter approved debt. Consequently, there was a tendency away from general obligation debt in the late 1960's. There was, however, no connection between the BART debt burden and the increasing trend away from voter approved debt.⁸

⁸ McDonald & Grefe, Inc., The Impact Of BART's Bond Issue On Regional Public Financing, Document No. TM-27-7-77 (Berkeley: Metropolitan Transportation Commission, August 1977).

2. BART'S MAJOR IMPACT ON OAKLAND'S CAPITAL IMPROVEMENTS WAS TO PROVIDE A CONVENIENT VEHICLE FOR FINANCING AND MARKETING DOWNTOWN REDEVELOPMENT

BART made it possible for Oakland to implement an ambitious downtown redevelopment program. Although the degree to which BART caused the acceleration of the City Center Redevelopment Project is uncertain, BART apparently played the role of catalyst by: (1) providing local non-cash credits to obtain \$25 million in Federal funds; and (2) serving as a principal attraction to bring the first major industrial tenant to City Center--the Clorox Corporation, which, in turn, has attracted other tenants. In addition, the Clorox Building in City Center has generated significant amounts of tax increment revenue to finance additional redevelopment projects.

BART-related capital projects appeared not to be linked, however, to any deferrals or changes in the City's capital improvement priorities. BART-related capital projects, as described in the preceding section, were all projects which reflected established city priorities which happened to be coordinated with BART construction plans.

The Museum Construction Fund Bond Issue, approved in 1961, was the only general obligation bond issue presented to the voters during the 1960's. Oakland followed a markedly conservative debt policy with respect to general obligation bonds; however, the use of revenue bonds increased dramatically. This debt trend was consistent with cities in California as a whole and, in the view of key informants, was not attributable to the influence of BART debt.

In relation to BART's possible impact on City debt, however, there is some evidence to suggest that the Council felt BART was the only significant capital debt burden the citizens of Oakland could bear. Thus, the Council argued that BART construction should act as local non-cash credit because the taxpayers could not afford both rapid transit and an urban renewal project.⁹ Other than this recognition of a relationship between BART financing and City priorities, there was no other indication, formal or informal, that the Council's concern over BART's management and financial problems was ever again translated into an impact on City development plans.

Throughout the 1960's, Oakland officials searched anxiously for new revenue sources to stave off projected budget deficits. State legislation in the 1960's introduced tax increment financing as a new source of funding for redevelopment projects. Tax increment financing essentially allows a jurisdiction to sell redevelopment bonds and use that annual "tax increment" resulting from the appreciated property values in the redevelopment area to retire the bonds.

⁹Council Resolution 42705, Oakland City Council, January, 1963.

*Oakland utilized tax increment financing to enlarge the City Center redevelopment area. The single most important revenue source to retire the City Center tax increment bonds was the Clorox Building. To the extent that BART actually may have been a factor in attracting the Clorox Building to City Center rather than elsewhere in the Bay Area, BART was indirectly responsible for generating additional fundings toward achievement of the City's redevelopment objectives.

3. BART'S PRIMARY IMPACT ON RICHMOND'S CAPITAL IMPROVEMENT PRIORITIES WAS TO ENABLE THE CITY TO UNDERTAKE PROJECTS THAT OTHERWISE LACKED FUNDING

In Richmond, outside funds, primarily in the form of direct reimbursement by BART in the case of the grade separation projects, and local non-cash credits for redevelopment, enabled the City to finance all BART-related projects without diverting City funds from other capital projects.

Richmond's only major general obligation bond issue of the 1960's was approved by the voters in 1967-68 when BART financial difficulties were receiving widespread publicity. Bonded debt has decreased steadily since that bond issue, consistent with general debt trends in California cities. The noticeable favorable financial impact of BART on Richmond made less likely any adverse impact on the City's capital improvement plans.

4. WALNUT CREEK'S DRAMATIC INCREASE IN CAPITAL IMPROVEMENTS REMAINED ESSENTIALLY UNAFFECTED BY BART FINANCING REQUIREMENTS

The mid-1960's was a period of substantial expansion in Walnut Creek. The major general obligation bond issue of the period was the street improvements/park development issue, approved for \$6.87 million in 1966. Later, in 1974, a county special district bond issue to acquire open space passed by 71%. This and other evidence indicates that BART debt or the tax rate did not have any influence whatsoever over the City's capital improvement financing.

5. BART-RELATED CONSTRUCTION LED TO SAN FRANCISCO'S UTILIZATION OF A NEW FINANCING APPROACH AND SOME PROBABLE SHIFTING OF THE CITY'S CAPITAL IMPROVEMENT PRIORITIES

BART's impact on San Francisco's financial policies and capital improvement strategies was in three major areas:

- . The probable shifting of other capital improvement priorities.
- . An indirect addition to a rapidly increasing total bonded debt burden.
- . The precedent-setting utilization by the City of a new approach to capital improvement financing (tax increment bonds).

Although BART construction and BART-related improvements required a small, yet significant commitment of local tax revenues, local officials did not indicate any conscious shift in priorities and timing for other city projects and expenditures. However, an analysis of the budgetary decision-making process in San Francisco indicates that some "imperceptible sliding" of budgetary priorities probably took place. For example:

- . The Capital Improvements Budget ranks projects in priority order accompanied by cumulative cost totals. Decision-makers generally agree to a total cumulative budget rather than review individual projects. Therefore, when projects such as the 5th and 7th Street extensions were raised significantly in priority, other projects were subsequently lowered in priority and some could easily have been delayed one or more years.
- . The use of Tax Increment Bonds to finance the Embarcadero Station effectively diverted \$5 to \$7 million in property tax revenues annually between 1968 and 1976. Other BART-related improvements diverted lesser though significant amounts. This diversion of funds could possibly have resulted in some reduction in service or increase in required revenue from another source to maintain the same level of service.

* Significant increases in bonded indebtedness exempt from legal restrictions indicate that the City could be nearing political limits for bond funding. Revenue and other improvement bonds which are exempt from legal bonding limitations have been increasingly chosen to fund major capital improvement projects. Exempt bonds have risen from 16% to 65% of total bond funding since 1962. Although the City has not reached its legal bonding constraints, the total amount of outstanding bonded debt has reached a level to cause some political concern. Just recently, one Supervisor expressed serious reservations about supporting a proposed \$90 million bond issue for airport expansion to appear on the November 1977 ballot primarily because it would raise the City's bonded debt beyond a "reasonable level." Therefore, capital spending on BART-related projects almost ten years ago added to that burden which is likely approaching its political limit. Consequently, current capital priorities may indirectly be affected by BART's impact.

Finally, with respect to revenue policies, BART-related construction was responsible for opening up significant new sources of revenue. Two major revenue sources and related policy decisions which resulted from BART construction are described below:

- . Federal Transit Grant For Station Mezzanine Extensions And Plazas. The City developed an application for project funding in 1966 under the new Urban Mass Transportation Act of 1964, at that time administered by the U.S. Department Of Housing and Urban Development (HUD). The projects clearly represented an amenity rather than a requirement for adequate BART operation. Key informants indicated two possible impacts on financial policy:
 - BART station construction funds qualified as most of the local matching share for the Federal Grant (41% of the 50% needed). The reduction from 50% to 9% for City matching funds was considered an important factor in the City's decision to proceed.
 - The lack of Federal funding approval likely would have resulted in the cancellation of the project.
- . Tax Increment Financing Of The Embarcadero Station represents a totally different public policy decision. Rather than an amenity, business leaders and redevelopment officials considered the station necessary to meet current projections for growth and development of the Golden Gateway Redevelopment Project. Financial policy impacts include:

- The City applied for BART, Federal and State funding and was rejected by all three. Despite this inability to obtain funding, City officials continued to explore funding alternatives until successful, indicating the overwhelming importance of the facility to decision-makers.
- For the first time, the San Francisco Board of Supervisors approved the use of tax increment financing for the construction of a public facility. This decision not only required the support of the Redevelopment Agency and the business community but an actual change in the physical boundary of the redevelopment area to include the station location.
- The City Controller refused to establish a fund to administer the tax increment financing, claiming the Supervisors' action was illegal because, (1) property owners were not asked to approve the financing plan, and (2) the station area was not blighted and, therefore, could not be included in the redevelopment area according to Federal requirements. To avoid any uncertainty among investors, the Redevelopment Agency sued the Controller. The State Court of Appeals ruled that tax increment financing was "not only legal, but also the most feasible and economic method" of financing the station.
- The decision to use tax increment financing effectively diverted property tax revenues to pay for station construction and bond interest. The bonds will be redeemed in full during 1977 at a total estimated cost of \$20 million for bond principal, interest and administration and service charges.

6. BART'S MOST SIGNIFICANT IMPACT ON CAPITAL PROJECTS WAS TO
OPEN UP ADDITIONAL FUNDING SOURCES

In summary, BART financing and construction requirements did have some impact on capital improvement timing and financial approaches. In none of the case study cities, however, was there any discernible impact on the willingness of local officials or voters to relate BART debt requirements to local debt requirements. Although some evidence suggests that BART may have affected the timing and priorities of local capital projects, BART's most significant impact on local capital improvements was in its providing an opportunity to utilize new funding approaches that, without BART, would not have been used. The BART impact on revenue sources was particularly apparent in Oakland, Richmond and San Francisco, where important City development objectives and precedents in revenue sources were established as a result of BART partially financing capital construction projects that in some way could be tied to BART construction.

VII. CONCLUSIONS AND IMPLICATIONS

This chapter summarizes first the conclusions of the Local Government Finance Task, followed by a description of the major policy implications.

The conclusions of the Local Government Finance Task may be summarized as follows:

- . While BART was a highly visible and controversial part of the rapidly rising composite tax rates in the 1960's, the BART debt burden and tax rate were not perceived as in any way influential in local tax rate or bonding decisions.
- . In general, BART had a beneficial impact on local government by:
 - Partially financing local capital projects that were in any way related to BART.
 - Enabling local governments to combine local capital projects with related BART construction, thereby reducing the overall cost to the cities.
 - Providing (in the form of dollars invested in BART construction) local non-cash credits for cities to use as matching funds in obtaining redevelopment grants.
 - Encouraging cities to take advantage of alternative funding approaches (such as tax increment funding) to finance redevelopment.
- . Negative impacts of BART on local governments' finances were limited to:
 - Overflow parking problems around BART stations, particularly in the suburban areas.
 - Minor additional maintenance and security costs.

Overall, BART's measurable impact on local budgets and financial policies has ranged from very favorable, as in the case of San Francisco and Richmond, to moderately favorable or neutral, as in the case of Walnut Creek and Fremont.

The impact of BART on local government budgetary and financial policies has several policy implications for local governments affected by a rapid rail transit system. These implications are discussed in the paragraphs below:

1. CITIES CAN BENEFIT FINANCIALLY FROM RAPID TRANSIT SYSTEM CONSTRUCTION BY LINKING CAPITAL IMPROVEMENT PRIORITIES TO TRANSIT DEVELOPMENT PLANS

One lesson of the BART experience is clearly apparent: cities that received the most financial benefits from BART construction were those cities that consciously attempted to coordinate their capital improvements programming with transit construction. Oakland, Richmond, and San Francisco are each examples of how already established city street improvement and redevelopment priorities could be effectively tied into transit system construction plans.

In each of these cities, however, the linkages between transit construction and local projects did not result from a formal established policy. Rather, the linkages were forged as opportunistic responses to rapid transit construction plans as they unfolded. It is likely that a city may derive greater benefits from a transit system if an assertive planning posture is established prior to the system design stages to explore alternative ways the City can effectively combine local capital improvement priorities with likely transit plans. Most of the planning studies for taking advantage of BART construction were launched well after basic route and station decisions had been made. A formal, long range capital planning posture would take fuller advantage of transit construction opportunities.

by:

- . Reviewing each existing capital improvement proposal in terms of likely system plans.
- . Identifying other potential projects that may be either necessary or desirable in light of probable transit system plans.
- . Modifying the capital programming and budgeting process to include an on-going review of possible impacts of transit system route, station and timing changes.

In essence, cities can obtain favorable local impacts to the extent public officials recognize the need for the capital programming process to focus well in advance on ways to forge linkages between city development and redevelopment needs and transit development plans.

2. BASED ON THE BART EXPERIENCE, TRAFFIC AND PARKING ISSUES PRESENT THE MOST SERIOUS POLICY CHALLENGES TO LOCAL DECISION-MAKERS

In three of the case study cities--San Francisco, Fremont, and Walnut Creek--BART operations have resulted in adverse parking impacts, and in some cases adverse traffic impacts. Although BART ridership is about half of what was projected, BART station parking lots in these cities are overflowing. Increased "park-and-ride" transit use versus "kiss-and-ride" accounts for most of the additional parking. The possibility of adverse parking impacts presents a significant policy challenge to local public officials. In each of the case study cities where BART-related parking was a problem, it has become a significant, highly visible problem. Solutions to these parking problems have been difficult to implement because:

- . Respective roles of the local governments and BART in resolving the parking problems were not clearly defined in advance.
- . Funds were not initially available to expand parking facilities as the problem became apparent.
- . Alternatives to parking lot construction such as a well-developed feeder service were not planned.

Consequently, local officials, in formulating rapid transit parking policies, should:

- . Ensure that parking, particularly in suburban areas, receives high priority attention from transit planners.
- . Consider alternative ways to discourage auto use by transit patrons, such as an adequate feeder service.
- . Recognize, however, that the nature of rapid transit and auto ownership patterns will make it extremely difficult to discourage transit patrons from using autos.

- . Insist, therefore, on adequate and reasonable standards to meet a realistic range of transit parking demands.
 - . Participate with transit authority representatives in developing a contingency parking policy defining organizational and funding responsibilities should the realistic range of parking demand be exceeded.
3. THE EXPERIENCE OF THE FIVE CASE STUDY CITIES DEMONSTRATES THAT OTHER CITIES CAPITAL FINANCING PLANS WILL REMAIN UNAFFECTED BY TRANSIT DEBT

There was some concern at the outset of BART planning that the high BART debt would injure the bond offerings of some small agencies. While it is conceivable that smaller government units may have refrained from capital financing in anticipation of adverse impacts from the BART debt, there is no evidence, either from the Public Policy Project or the Economics and Finance Project, that the BART debt affected local capital financing plans in any way whatsoever. Consequently, local officials, particularly under the current 80% Federal participation in transit system construction, should not feel compelled to defer local bond offerings because of transit debt.

4. THE ABILITY OF LOCAL GOVERNMENTS TO TAKE FULL ADVANTAGE OF TRANSIT-RELATED DEVELOPMENT POTENTIAL WILL DEPEND UPON THE AVAILABILITY OF SUITABLE FINANCING MECHANISMS

BART played a key role in attracting financing to important redevelopment projects, particularly in Oakland and San Francisco. Financing approaches, however, which were formulated quite independently from BART, made it possible for these cities to take full advantage of BART construction in leveraging local redevelopment projects.

The major redevelopment funding approaches used in connection with BART were:

- . The use of the BART construction cost as a matching credit in obtaining additional redevelopment funds (although the funding is no longer available in this form).
- . The use of tax increment financing to leverage present investments with future returns.

Without either of these two financing approaches, the apparent favorable impact of BART on local redevelopment plans would have been far less substantial. Consequently, if local redevelopment (or development) is an important objective, then financing approaches should be considered that:

- . Recognize the role of transit investments as "seed money" to stimulate redevelopment.
- . Enable a local unit to pay for present redevelopment with some portion of the increase of tax revenues projected because of the redevelopment.

A characteristic problem in redevelopment projects is the inability of any one grant to attain a "critical mass" that can effect substantial redevelopment. Investment in rapid rail transit provides an opportunity for both grantors and grantees to reach a critical mass in redevelopment funding by adopting financing approaches that encourage the concentration of redevelopment grant resources in areas closely linked with transit plans.

The BART experience also implies that state and local officials should review present forms of redevelopment financing with an eye toward legislating provisions that enable localities to utilize some form of benefit financing for transit-related redevelopment. Such financing would enable cities to finance redevelopment in part from the tax proceeds created by the redevelopment.

APPENDIX A
KEY INFORMANT INTERVIEW LIST

FREMONT

DONALD DRIGGS	City Manager, Fremont, California
MYRON HARMON	Traffic Engineer, City of Fremont
CARL FLEGAL	C.P.A., Former Manager, Councilman, City of Fremont
DONALD DILLON	Former Mayor, present Councilman, City of Fremont
THOMAS M. BLAYLOCK	Public Works Director, City of Fremont
ROY POTTER	Former Planning Director, City of Fremont
DAVID W. BAKER	Former Planning Director, City of Fremont

OAKLAND

NORM LIND	City Planning Director
TERRY ADELMAN	Assistant Finance Director
DALE ODELL	Project Director, City Center Redeve- lopment, Community Development Depart- ment
DON BIERMAN	Director, Office of Budget and Manage- ment Services
JUDY DRIGGS	Budget Analyst, Office of Budget and Management Services
JAMES MCCARTHY	Public Works Director
RON HURLBUT	Traffic Engineer
FRANK SOMMERS	Financial Analyst, Department of Finance

CECIL RILEY	City Manager
JOHN READING	Former Mayor
JOHN MORIN	Former Acting City Manager and Assistant Manager and Public Works Director
LT. MICHAEL NORDEN	Section Lieutenant, Patrol Division, Oakland Police Department

RICHMOND

AL WHITE	Former Director of Public Works and subsequently consultant to the City for BART
DAVID HIGGINS	In City Manager's office during entire period and prepared early cost analysis of alternative station locations
RAY NAKETEGAWA	In Public Works Department responsible for BART related projects
FORREST SIMONS	Former City Manager and Director of Property for Richmond
DICK PARKER	Public Works Department
JACK HORTON	Chamber of Commerce
HIM KIMOTO	Richmond Development Agency (Nevin Mall)
AL HIRSCHFIELD	Richmond Development Agency (Nevin Mall)
STAN GRYDYK	Richmond City Council for 16 years and BART board for 4 years

WALNUT CREEK

ARMOND WERLE	City Manager, Lewiston, Idaho, former Public Works Director, Walnut Creek
CAPTAIN NEIL STRATTON	Commander, Operations, Walnut Creek Police Department
RALPH SNYDER	City Manager, Hercules, California, former City Manager, Walnut Creek

PETE SANTINA	Partner, engineering firm, Walnut Creek, former Public Works Director, Walnut Creek, and Assistant Public Works Director
KEITH LOCKHART	Traffic Engineer, City of Walnut Creek
STANLEY STEPHENS	Finance Director, City of Walnut Creek
ADELE C. LAINE	City Clerk and former Finance Director, City of Walnut Creek
THOMAS DUNNE	City Manager, City of Walnut Creek
GARY BINGER	Planning Director, City of Walnut Creek
ROBERT SCHRODER	Member, Contra Costa County Board of Supervisors and former Mayor of Walnut Creek

SAN FRANCISCO

JACK BARRON	Project Manager, Transit Task Force
THOMAS BOWLER	Accounts and Records, Department of Public Works
NORMAN BRAY	Traffic Engineering, Department of Public Works
DAVID FONG	Mayor's Budget Staff, formerly Controller's Office
WALTER GABY	Redevelopment Agency
JANE HALE	Redevelopment Agency
ALLAN JACOBS	Former Director of City Planning
JAMES MCCARTHY	Former Director of City Planning
CALVIN MALONE	Capital Budgeting Program, Department of City Planning
THOMAS MELLON	Former Chief Administrative Officer
RONALD PELOSI	Member, Board of Supervisors

SCOTT SHOAF	Traffic Engineering, Department of Public Works
DONALD TAYLOR	Deputy Chief of Patrol, San Francisco Police Department
SERGEANT VICTOR WODE	Planning and Research Division, San Francisco Police Department
HARVEY ROSE	Budget Department, San Francisco Board of Supervisors

CONTRA COSTA COUNTY

ROBERT SCHRODER	Member, Board of Supervisors
JAMES KENNEY	Member, Board of Supervisors

ALAMEDA COUNTY

JOSEPH P. BORT	Member, Board of Supervisors
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EXHIBIT II
Local Government Finance Task
CITY OF FREMONT
REVENUE AND EXPENDITURE TRENDS

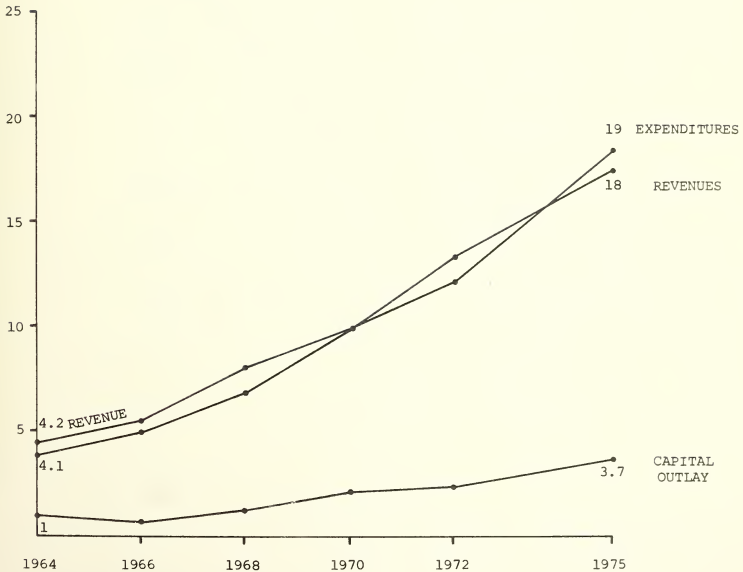


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Local Government Finance Task
CITY OF OAKLAND
REVENUE AND EXPENDITURE TRENDS

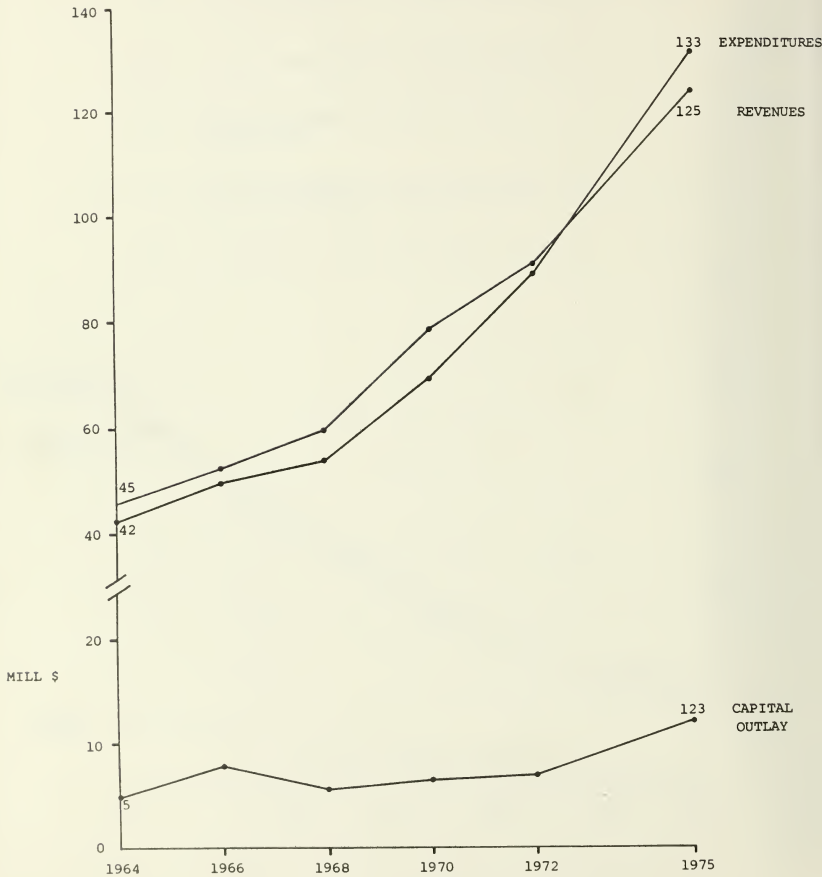


EXHIBIT VIII
Local Government Finance Task
CITY TRENDS IN REVENUE SOURCES AS
A PERCENTAGE OF TOTAL REVENUES

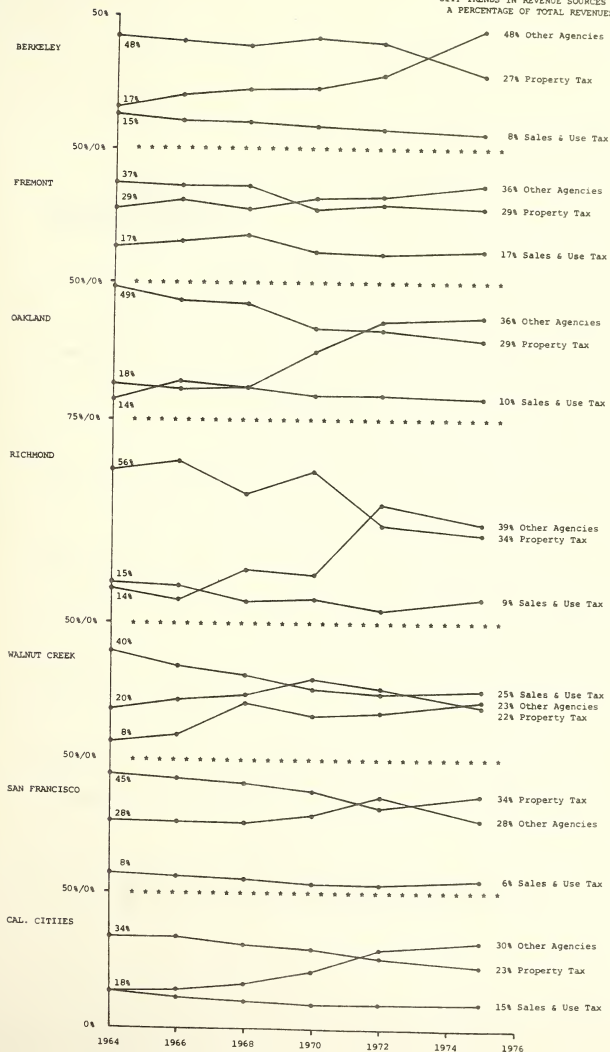


EXHIBIT IX
Local Government Finance Task
COUNTY TRENDS IN REVENUE SOURCES AS
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COUNTIES - REVENUE TRENDS

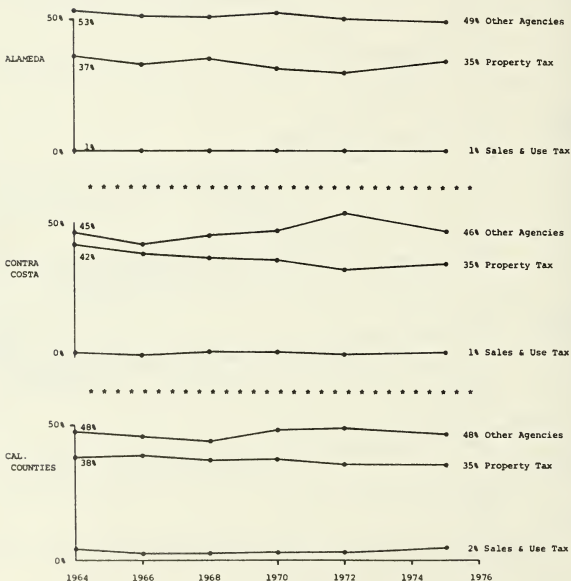


EXHIBIT X
Local Government Finance Task
CITY OF BERKELEY
TAX RATE COMPARISON
1964 To 1976

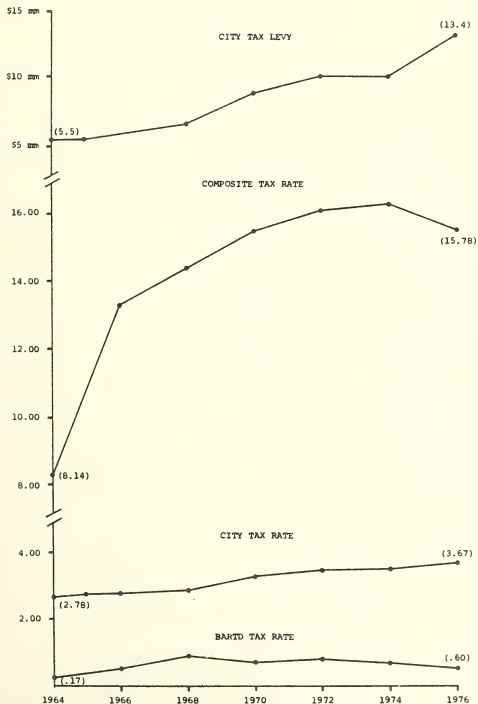


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CITY OF FREMONT
TAX RATE COMPARISON
1965 To 1975

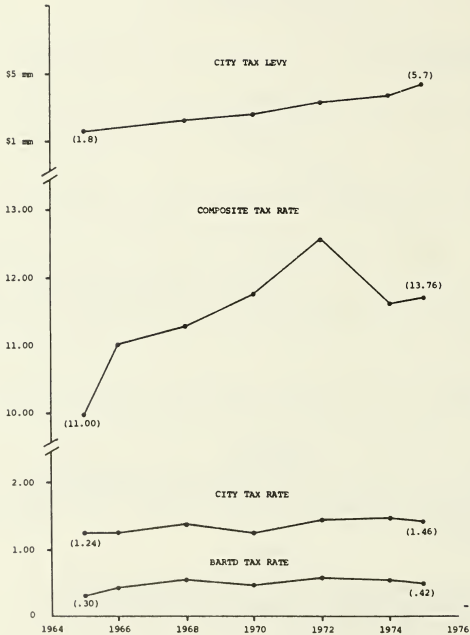


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1964 To 1975

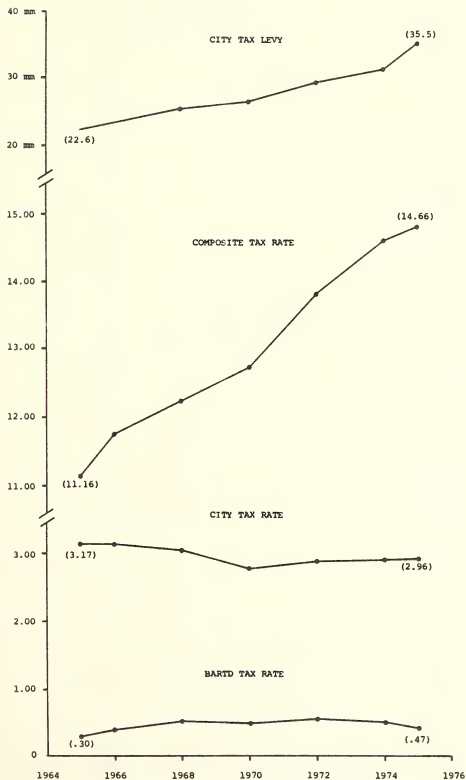


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CITY OF RICHMOND
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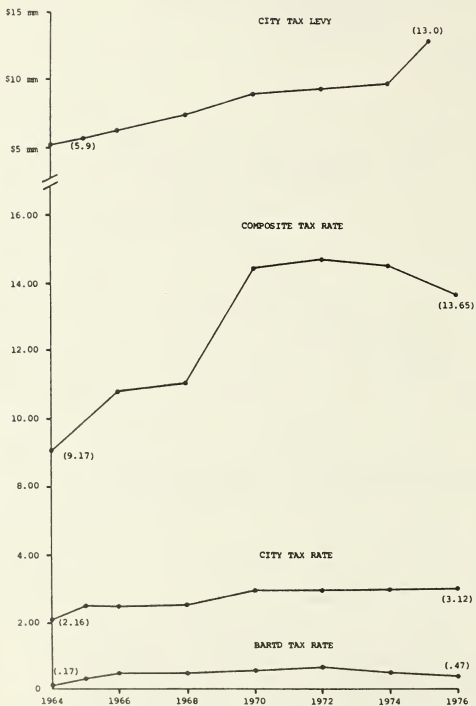


EXHIBIT XIV
Local Government Finance Task
CITY OF WALNUT CREEK
TAX RATE COMPARISON

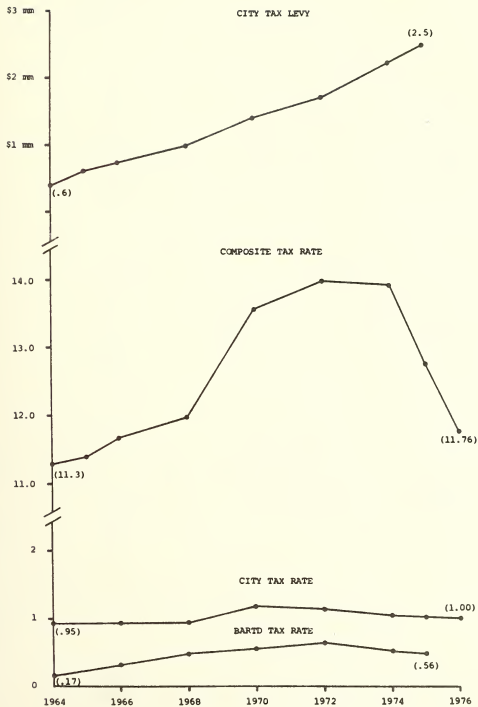


EXHIBIT XV
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CITY AND COUNTY OF SAN FRANCISCO
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1964 To 1975

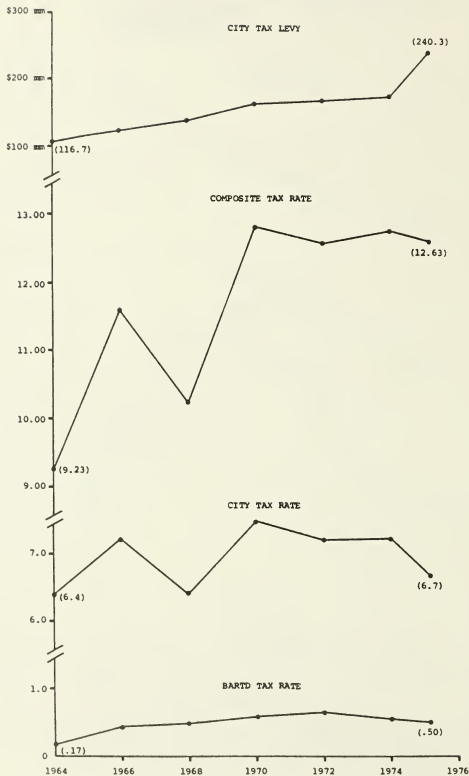


EXHIBIT XVI
Local Government Finance Task
CALIFORNIA CITIES TAX RATE COMPARISON

